

# HOUSE BILL REPORT

## HB 1023

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### As Reported By House Committee On:

Finance

**Title:** An act relating to reducing business and occupation tax rates.

**Brief Description:** Reducing business and occupation tax rates.

**Sponsors:** Representatives B. Thomas, Foreman, Chandler, Lisk, Cooke, Carlson, Brumsickle, Silver, Ballasiotes, Dyer, Sherstad, Dellwo, Benton, Skinner, Kremen, Hargrove, Tokuda, Costa, Horn, Delvin, Schoesler, Buck, Johnson, Thompson, Beeksma, Goldsmith, Radcliff, Hickel, Backlund, Crouse, Cairnes, Elliot, Reams, Pennington, Mastin, Carrell, Mitchell, K. Schmidt, Quall, Chappell, G. Fisher, Grant, Smith, Robertson, Sehlin, Honeyford, Van Luven, Pelesky, Blanton, Koster, Lambert, D. Schmidt, Mulliken, Boldt, McMorris, Clements, Fuhrman, Campbell, L. Thomas, Huff, Mielke, Talcott, McMahan, Stevens, Morris, Hymes and Casada.

### Brief History:

#### Committee Activity:

Finance: 1/12/95, 1/17/95 [DP].

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** Do pass. Signed by 10 members: Representatives B. Thomas, Chair; Boldt, Vice Chair; Carrell, Vice Chair; Morris, Ranking Minority Member; Campbell; Hymes; Mulliken; Pennington; Schoesler and Van Luven.

**Minority Report:** Do not pass. Signed by 2 members: Representatives Dickerson, Assistant Ranking Minority Member; and Mason.

**Staff:** Bob Longman (786-7139).

### Background:

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Although there are several different rates, the principal rates are:

Manufacturing, wholesaling, & extracting	0.506%
Retailing	0.471%

Services:

- Business Services	2.5%
- Financial Services	1.7%
- Other activities	2.09%

Selected services subject to the 2.5 percent rate include the following:

- ð Stenographic, secretarial, and clerical services
- ð Computer services, including computer programming, custom software modification, custom software installation, custom software maintenance, custom software repair, training in the use of custom software, computer systems design, and custom software update services
- ð Data processing and information services, but excluding information services to the media through an information network
- ð Legal, arbitration, and mediation services, including paralegal services, legal research services, and court reporting services
- ð Accounting, auditing, actuarial, bookkeeping, tax preparation, and similar services
- ð Design services whether or not performed by persons licensed or certified, including engineering services and architectural services
- ð Business consulting services, including administrative management consulting, general management consulting, human resource consulting or training, management engineering consulting, management information systems consulting, manufacturing management consulting, marketing consulting, operations research consulting, personnel management consulting, physical distribution consulting, site location consulting, economic consulting, motel, hotel, and resort consulting, restaurant consulting, government affairs consulting, and lobbying
- ð Business management services, including administrative management, business management, and office management, but excluding property management or property leasing, motel, hotel, and resort management, or automobile parking management
- ð Protective services, including detective agency services and private investigating services, armored car services, guard or protective services, lie detection or polygraph services, and security system, burglar, or fire alarm monitoring and maintenance services
- ð Public relations or advertising services, including layout, art direction, graphic design, copy writing, mechanical preparation, opinion research, marketing research, marketing, or production supervision, but excluding services provided as part of broadcast or print advertising
- ð Aerial and land surveying, geological consulting, and real estate appraising

In 1993, the B&O tax rate on selected business services was increased from 1.5 percent to 2.5 percent, the rate on financial businesses was increased from 1.5 percent to 1.7 percent, and the rate on all other services was increased from 1.5 percent to 2.0 percent. Also in 1993, the B&O tax was extended to public and nonprofit hospitals at the rate of .75 percent through June 30, 1995, and 1.5 percent thereafter.

In addition to these permanent tax increases, in 1993 a surtax of 6.5 percent was imposed on all B&O tax classifications except selected business services, financial services, retailing, and public and nonprofit hospitals. The surtax was lowered to 4.5 on January 1, 1995. The surtax expires July 1, 1997. The surtax is calculated by multiplying each permanent rate to which it applies by 1.045. For example, the 2 percent service rate becomes 2.09 percent during the time the 4.5 percent surtax is in effect.

**Summary of Bill:**

Business and Occupation Tax rates are reduced as follows, effective July 1, 1995.

The permanent rate for selected business services is reduced from 2.5 percent to 2.0 percent. This rate continues to be exempt from the surtax.

The permanent rate for financial businesses is reduced from 1.7 to 1.6 percent. This rate continues to be exempt from the surtax.

The permanent rate for other services is reduced from 2.0 percent to 1.75 percent. This rate is subject to the 4.5 percent surtax, so the rate in effect until July 1, 1997, will be 1.83 percent.

**Appropriation:** None.

**Fiscal Note:** Requested on January 9, 1995.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 1995.

**Testimony For:** The 1993 tax increases placed a harsh burden on small businesses especially service businesses. In 1993, a small set of service industries were selected for high B&O tax rates. The business and occupation tax is on the gross, not the net. Some service businesses have a gross profit of only 5 percent, the 2.5 percent B&O tax is a tax of 50 percent of gross profit. The increase in service B&O has a negative impact not only on the service business but also its customers. This bill is a solid first step to reduce the 1993 tax increase. Most businesses cannot pass on the cost of business and occupation taxes to the consumer. In 1993, when the Legislature increased these taxes there was no way to plan for the increases. Many small businesses, especially the cottage industries, could not afford the increased B&O taxes.

**Testimony Against:** None.

**Testified:** (pro) Glen Hudson, Cathaleen Cavanagh, and Craig Johnson, Washington Association of Realtors; Martin A. Sangster, Loomis Armored Car Service; Tim Rundquist, American Institute of Architects; Robert Widmeyer, Architects and Engineers Legislative Council; Patrick Beehler, Land Surveyors Association of Washington; Steve Tarabochia, Washington Association of Realtors; Carl Warren, Washington Association of Accountants; Tom Dooley, Association of Washington Business; Krista Eschler, Seattle Chamber of Commerce; Sam Pace, Realtors and Bellevue Chamber of Commerce; and K. D. Rosenberg, Tri-Counties (Stevens, Ferry and Pend Oreille) Washington Association of Counties.